

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 ABF-01 DODE-00 PM-05 H-02 L-03 PA-02
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FM AMEMBASSY TAIPEI
TO SECSTATE WASHDC 8092

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E.O. 11652: N/A
TAGS: EFIN, TW
SUBJECT: REVALUATION--FURTHER DEVELOPMENTS AND REACTIONS

REFS: (A) TAIPEI 4359, (B) TAIPEI 4415

1. TAIWAN STOCK EXCHANGE: THE STOCK EXCHANGE INDEX
DROPPED FROM 574 TO 558 ON JULY 11, AS SHARE PRICES FOR 32
COMPANIES DROPPED 5 PERCENT, THE MAXIMUM ALLOWED BY EXCHANGE REGU-
LATIONS. STOCK PRICES DECLINED FOR 78 OF 80 LISTED COM-
PANIES; ONLY YUE LOONG MOTOR CORPORATION AND THE TAIWAN IRON
MANUFACTURING CORPORATION (BOTH OF WHICH RELY HEAVILY ON
IMPORTED COMPONENTS AND MATERIALS, AND HAVE NO EXPORT SALES)
INCREASED IN PRICE. THE INDEX BEGAN TO REBOUND THE NEXT
DAY, HOWEVER.

2. BLACK MARKET: THE BLACK MARKET RATE FOR THE U.S.
DOLLAR, WHICH HAD HOVERED AROUND 40 NT 1 U.S. DOLLAR FOR
SEVERAL MONTHS, DROPPED TO ABOUT 37 NT 1 U.S. DOLLAR ON
JULY 11.

3. EFFECT ON PRICES: THE COUNCIL FOR ECONOMIC PLANNING
AND DEVELOPMENT (CEPD) ESTIMATES THAT THE REVALUATION WILL
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LOWER THE RATE OF INFLATION FOR WHOLESALE AND RETAIL PRICES
FOR FY 1978 TO 3.5 PERCENT AND 6 TO 7 PERCENT, RESPECTIVELY. THE
EMBASSY BELIEVES THESE ESTIMATES ARE ON THE OPTIMISTIC SIDE,
CONSIDERING THE SMALL SIZE OF THE REVALUATION, THE RISING
DOMESTIC WAGE RATES, AND THE FACT THE REVALUATION'S FULL
EFFECTS ON DOMESTIC PRICES WILL BE FELT ONLY AFTER A TIME
LAG OF, PERHAPS, SEVERAL WEEKS.

4. EFFECT ON TRADE: THE MINISTRY OF FINANCE ESTIMATES THAT EXPORT REVENUES FOR THE SECOND HALF OF 1978 WILL DECLINE BY U.S.\$312 MILLION, WHILE IMPORTERS WILL SAVE US\$272 MILLION IN PURCHASES FROM FOREIGN COUNTRIES.

5. REACTIONS FROM INDUSTRIES: ELECTRONICS MANUFACTURERS BELIEVE THAT THE COMPETITIVENESS OF BLACK AND WHITE TV SETS WILL BE REDUCED, SINCE LOCAL CONTENT OF B/W TVS IS NOW 98 PERCENT. THE IMPACT OF REVALUATION ON COLOR TVS SHOULD BE SLIGHT, SINCE 40 PERCENT OF THEIR COMPONENTS ARE IMPORTED.

6. FLOUR AND ANIMAL FEED MANUFACTURERS WILL BENEFIT FROM REVALUATION, SINCE THEIR RAW MATERIALS (WHEAT, SOYBEANS) ARE IMPORTED.

7. TEXTILES: THE TEXTILE EXPORTERS FEDERATION ESTIMATES THAT TEXTILE COMPANIES WOULD LOSE US\$16.7 MILLION ON ORDERS RECEIVED BEFORE THE REVALUATION, BUT NOT YET DELIVERED. THE FEDERATION HAS ASKED THE GROC TO APPLY THE PREVIOUS EXCHANGE RATE (NT38 U.S.1) TO REVENUES DERIVED FROM SUCH ORDERS.

8. SHIPPING COMPANIES, BOTH LOCAL AND INTERNATIONAL, HAVE TENTATIVELY DECIDED TO RAISE PRICES BY 5.2 PERCENT, EFFECTIVE JULY 15 OR AUGUST 1.

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9. PLYWOOD: PLYWOOD EXPORTERS HAVE RAISED THEIR PRICES BY US\$2, FROM US\$71-US\$76 TO US\$73-US\$78 PER 1,000 SQUARE FEET.

10. RELATED DEVELOPMENTS: WILLIAM WEI (WEI YUNG-NING), VICE-MINISTER OF ECONOMIC AFFAIRS, ANNOUNCED THAT, IN ACCORDANCE WITH PAST PRACTICES, THE GOVERNMENT WOULD ASSIST EXPORT INDUSTRIES WHICH ARE PARTICULARLY AFFECTED BY THE REVALUATION. HE STATED THAT THE TEXTILE, MAN-MADE FIBER, PLYWOOD, AND NONRUBBER SHOE INDUSTRIES MIGHT NEED SUCH ASSISTANCE, WHICH COULD TAKE THE FORM OF LOANS, OR EXEMPTION FROM IMPORT TAXES.

11. VICE-MINISTER OF ECONOMIC AFFAIRS Y. T. WONG STATED THAT THE GOVERNMENT'S PROPOSAL TO ABOLISH AREA RESTRICTIONS ON IMPORTS WOULD BE GIVEN FURTHER STUDY, IN THE LIGHT OF THE CURRENCY APPRECIATION. HE NOTED THAT MOST OF THE AREA RESTRICTIONS LIMIT PURCHASES TO EUROPE AND NORTH AMERICA, AND ESTIMATED THAT THE REMOVAL OF THE RESTRICTIONS ON SOME 800 ITEMS WOULD RESULT IN AN INCREASE IN IMPORTS FROM JAPAN, CAUSING THE ROC'S TRADE DEFICIT WITH JAPAN TO RISE

EVEN HIGHER.

12. THE MINISTRY OF FINANCE AND THE CENTRAL BANK (CBC)
ARE STUDYING VARIOUS METHODS OF ESTABLISHING A FOREIGN
CURRENCY MARKET IN TAIPEI. A CBC OFFICIAL TOLD EMBASSY
THAT NO DECISIONS HAVE BEEN MADE YET. ANOTHER PROPOSAL
BEING CONSIDERED WOULD ALLOW EXPORTERS TO DEPOSIT FOREIGN
CURRENCY IN LOCAL BANKS, RATHER THAN TURNING IT INTO THE
CENTRAL BANK IN EXCHANGE FOR NT DOLLARS, AS AT PRESENT.
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